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Managing Director*

September 26, 2008

Ms. Anne Stausboll
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Revision of Real Estate Policies

Dear Anne,

You requested Wilshire's opinion with respect to Staff's proposed revision of the Real Estate policies. These revisions are part of the Policy Review and Consolidation Project.

Recommendation

Wilshire recommends that the Investment Policy Subcommittee approve the policies. Wilshire believes that the policies provide appropriate guidance, information, and risk controls such that Staff, the Board, consultants and other interested parties can manage and evaluate the Real Estate investment program on an ongoing basis.

Discussion

Wilshire and PCA-Real Estate worked with Staff in rewriting the Real Estate policies. Unlike other asset classes, the revision of the Real Estate policies has been so significant that it amounts to a total rewrite, rather than minor revisions and conformity with the new template for policies.

With the proposed policies, Real Estate now has one overarching policy to govern the program. Each sub-strategy will contain appropriate governing language in an attachment allowing for easier revisions, as needed. In addition, procedural language has been removed from the policies, as has been the case with the other asset classes that have been through the Policy Review Project process. The revisions incorporate appropriate changes to implement Real Estate's strategic plan. The policy does conform to the new template in use throughout the Policy Review Project.

One key element of the new policy is the change to a risk classification system of Core, Value-Add, and Opportunistic categories. In addition, leverage limits have been lowered

and are clearly stated in the policy by category and for the overall program. Additionally, the policy requires Staff to use standardized investment structures.

Note that the Housing Program attachment and CURE Program attachment are slated for further review and scheduled to be brought before the Investment Policy Subcommittee in 2009.

Conclusion

In conclusion, Wilshire believes that the proposed Real Estate policies greatly simplify the Real Estate policies and will make them easier to use and understand. The policies contain appropriate guidance and controls for users of the policy to judge the success of the program going forward.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read "Ann Jinn". The signature is fluid and cursive, with a large initial "A" and a stylized "Jinn".